CORONATION BOND FUND

Fund Information as at 31 January 2019

CORONATION
TRUST IS EARNED™

WHAT IS THE FUND'S OBJECTIVE?

The fund seeks to maximise returns from a diverse range of primarily South African bonds. It aims to outperform the All Bond Index.

WHAT DOES THE FUND INVEST IN?

The Bond Fund can invest in fixed income instruments, issued by governments, parastatals and private companies, as well as cash. Exposure to foreign assets is limited to 10%. The fund is mandated to make use of derivative instruments for efficient portfolio management purposes.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

5/10

Moderate

Maximum growth/
minimum income exposures

Growth Assets: 0%

Income Assets: 100%

The fund is strategically managed to secure an attractive return by investing primarily in a range of government and corporate bonds. It will hold various tactical positions to benefit from the best opportunities as they emerge.

Investments are meticulously researched and subjected to a strict risk management process. Only quality instruments of reputable institutions will be considered. All factors that could affect these investments are carefully monitored, including inflation as well as currency and interest rates.

The risk of losing money over periods of more than a year is low, while it is slightly higher for periods of less than a year. The primary risk exposures are to changes in interest rates and corporate credit events.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The recommended term is 12 months and longer.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Investors who seek the benefits of an actively managed bond fund. The fund is particularly suited to those who require exposure to bonds as part of a diversified portfolio.

WHAT COSTS CAN I EXPECT TO PAY?

An annual fee of 0.75% (excl. VAT) is payable.

Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

We do not charge fees to access or withdraw from the fund.

More detail is available on www.coronation.com

WHO ARE THE FUND MANAGERS?

NISHAN MAHARAJ

BSc (Hons)

STEVE JANSON

BBusSc

SEAMUS VASEY

BCom (Hons), MSc

GENERAL FUND INFORMATION

Launch Date	1 August 1997
Fund Class	R
Benchmark	BEASSA ALBI Index
Fund Category	South African – Interest Bearing – Variable Term
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSPBD
ISIN Code	ZAE000019790
JSE Code	CNSB

CORONATION BOND FUND

CLASS R as at 31 January 2019

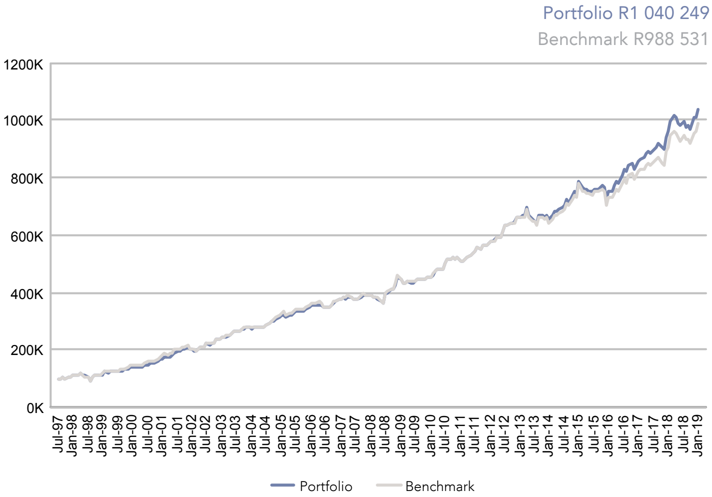
CORONATION
TRUST IS EARNED™

Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 2.60 billion
NAV	1518.45 cents
Benchmark/Performance Fee Hurdle	BEASSA ALBI Index
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

	1 Year	3 Year
Total Expense Ratio	0.87%	0.87%
Fund management fee	0.73%	0.73%
Fund expenses	0.03%	0.03%
VAT	0.10%	0.10%
Transaction costs (inc. VAT)	0.00%	0.00%
Total Investment Charge	0.87%	0.87%

PERFORMANCE AND RISK STATISTICS

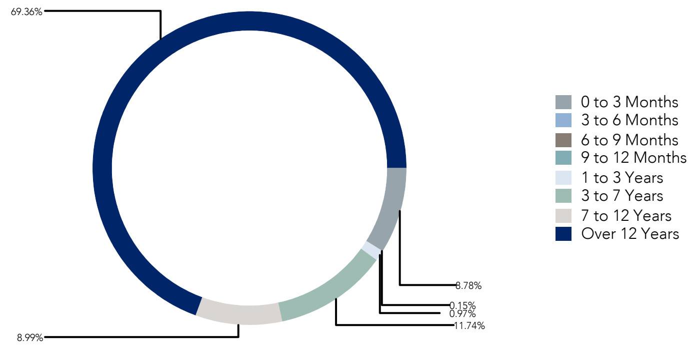
GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PORTFOLIO DETAIL

MATURITY PROFILE

As at 31 Jan 2019



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	940.3%	888.5%	51.7%
Since Launch (annualised)	11.5%	11.2%	0.3%
Latest 20 years (annualised)	11.7%	11.3%	0.4%
Latest 15 years (annualised)	9.3%	8.9%	0.4%
Latest 10 years (annualised)	8.9%	8.3%	0.6%
Latest 5 years (annualised)	9.8%	9.0%	0.7%
Latest 3 years (annualised)	11.3%	10.5%	0.9%
Latest 1 year	8.6%	8.8%	(0.2)%
Year to date	2.7%	2.9%	(0.2)%

	Fund
Modified Duration	7.6
Yield	9.9%

MATURITY PROFILE DETAIL

Sector	31 Jan 2019
0 to 3 Months	9.2%
3 to 6 Months	(4.3)%
6 to 9 Months	0.2%
9 to 12 Months	0.0%
1 to 3 Years	1.0%
3 to 7 Years	12.2%
7 to 12 Years	9.4%
Over 12 Years	72.3%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.5%	8.5%
Sharpe Ratio	0.30	0.23
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.9%	70.5%

	Fund	Date Range
Highest annual return	34.9%	Sep 1998 - Aug 1999
Lowest annual return	(7.0%)	Sep 1997 - Aug 1998

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
28 Sep 2018	01 Oct 2018	59.19	59.19
29 Mar 2018	03 Apr 2018	65.25	65.25
29 Sep 2017	02 Oct 2017	59.78	59.78
31 Mar 2017	03 Apr 2017	60.37	60.37

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2019	2.73%												2.70%
Fund 2018	1.87%	3.93%	1.79%	(0.31)%	(2.22)%	(0.80)%	1.92%	(2.54)%	0.62%	(1.07)%	3.86%	0.62%	7.70%
Fund 2017	1.52%	0.57%	0.89%	1.33%	0.88%	(0.32)%	1.31%	1.04%	1.35%	(1.72)%	(0.93)%	4.99%	11.30%

Issue date: 2019/02/11

Please refer to page 4 of the Comprehensive Fact Sheet for important additional infomation, including change in cost disclosures.

Please note that the commentary is for the retail class of the fund.

If you want to see the sunshine, you have to weather the storm, but in order to weather and navigate the storm, you have to adjust your sails. At Coronation, we are constantly questioning the assumptions that underlie our valuation-driven approach to investing so as to provide our clients with portfolios that are anti-fragile and best positioned to withstand the shorter effects of adverse volatility.

2018 was a difficult year for emerging markets and more especially for emerging market fixed-income investors. The year started with tremendous promise as emerging market bond yields and currencies appreciated markedly. Then the tide turned. The US/China trade war escalated, raising concerns about global growth expectations, which we now know to be too high. Around about the same time, the US Federal Reserve (Fed) started to lift its expectations for the US economy and consequently, its expectations around US interest rates. This combination of higher-than-expected US rates, lower global investor confidence and slower global growth, painted a very poor picture for emerging markets. This change occurred so suddenly that many authorities in these markets were left with very little time to react, so valuations of emerging market currencies and bonds had to adjust and act as the pressure valve. Emerging markets with large external deficits were the first to suffer, as was evidenced by Turkey and Argentina, which were both down between 30% to 50%. Emerging market bonds were down 7.9% in US dollars for 2018, while emerging market bonds in their local currencies only returned a paltry 2.9%.

South Africa didn't fare much better, as concerns on the key policies (land, mining charter and state-owned enterprise (SOE) reform) and much slower growth weighed heavily on local asset price performance. The All Bond Index (ALBI) was up 7.7% for 2018, however the rand was down 13.8% to the US dollar, bringing South African government bond returns in US dollars to -7%. Performance across the various parts of the yield curve was pretty balanced, with the very front end of the curve outperforming. We see the performance at the front end of the yield curve (one to three year) as unsustainable given that this performance was in large part driven by the buyback of bonds in that area of the curve as part of National Treasury's switch auction programme. South African government bonds had a rollercoaster of a year, with the benchmark bond starting the year at 8.6%, hitting a high of 7.9%, then a low of 9.4% and ending the year at 8.87%. Inflation-linked bonds (ILBs) continued to suffer as real yields moved almost as much as nominal bonds (I2025 – low: 3.15%, high: 2.08%) primarily due to the adjustment lower in both medium- and longer-dated inflation assumptions. Due to the higher duration that these bonds carry, ILBs only managed to eke out a return of 0.3% for the year.

Are there rays of sunshine on the horizon for South African government bonds and emerging markets? Or are there more adjustments needed from a valuation and portfolio perspective in order for us to weather this storm?

Over the next two years, global growth is expected to decelerate from 3.2% to 3%, driven primarily by a deceleration in growth coming out of developed markets (2.3% to 1.7%) and China (6.6% to 6%). Emerging market growth is expected to remain relatively stable around 4.6% but with quite a bit of disparity. The only emerging market countries that are expected to see an increase in growth over the next two years are Brazil, Russia, India and South Africa. Russia remains at risk of further US sanctions, Brazil's outlook remains clouded by high debt levels and a new political regime, while India enters an election year in which the ruling party is at risk of losing its majority. This only leaves South Africa as a somewhat more "stable" emerging market where growth is expected to pick up and inflation remaining relatively stable, closer to the midpoint (4.5%) of its target band.

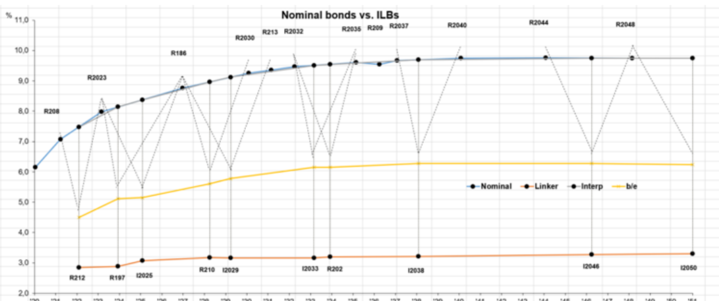
South Africa itself still faces risks. The largest of which remains Eskom, which has been a concern for the fiscus and a headwind to sustainable growth. More recently, Eskom has suggested that government would need to take on close to R100 billion (2%-3% of GDP) worth of debt onto its balance sheet in order to render the beleaguered SOE's debt servicing costs more practical. Although this is not enough to blow up South Africa's fiscal metrics, the precedent it sets for other SOE bailouts will not be looked at favourably. Discussions around Eskom in the last few months have intensified, with intentions to now reduce headcount in areas that have been bloated (mid- to high-level management). If the debt transfer is to happen, it has to be 1) temporary in nature (e.g. government agreeing to meet debt servicing costs over the next three years only), 2) accompanied by a plan to reduce costs in overextended areas and, 3) a plan to restructure the SOE into a financially viable vehicle (selling off assets or parts of the company to inject much needed capital). As has been the case in South Africa over the last year, revelations over how badly state capture has ruined SOEs has brought the stark realisation that many of them are in a much worse position than was initially suggested. Drastic action needs to be taken in order to turn these SOEs around and reignite the country's growth engine. The process has already started, but now needs to be accelerated in order to alleviate ratings agency concerns and prevent a full downgrade to sub-investment grade (Moody's is the only agency that still has South Africa on an investment-grade rating). Thankfully, the economy has been relatively resilient and has the potential to grow quite quickly from here if key issues are addressed. Investment has been very low and capital stock replacement has not occurred for quite some time. If concerns around Eskom are alleviated and we have a market-friendly resolution to the land expropriation without compensation debate (as has been suggested by Government), then we could see a meaningful pickup in growth, even well above the 1.8% consensus expectation over the next two years. In addition, with inflation remaining relatively well behaved and lower oil prices providing a boost to the consumers, we could see this accompanied by a further boost to consumer spending (60% of GDP), which could provide further upside. Overall, one can remain cautiously optimistic on the South African outlook for the next two years.

A change in the expectations for US interest rates and/or a resumption in the escalation of the US/China trade war could once again sour emerging market sentiment. However, valuations of emerging market bonds and currencies are now much more representative that when this occurred in mid-2017. Emerging market currencies are at the weakest point seen in the last 10 years, and emerging market bond spreads (relative to the US 10-year) and yields are now at their long-term average. Even if there is a resumption in the risk-off sentiment towards emerging markets, the valuation cushion that is now present is much healthier than in previously experienced episodes.

In the US, recent Fed rhetoric and revisions have all suggested more downside to growth over the coming year, which has lowered expectations for both interest rate hikes and the long-term level of interest rates in the US. The Fed has signaled two more hikes in 2019 (taking the policy rate to 2.9%) and a long-term neutral interest rate of 3%. Although the front end of the US curve currently fully prices this in, the US 10-year treasury bond (US 10y) remains well below this at 2.7%. This suggests that the level of US 10-year rates is once again too low. In our assessment, it should be closer to 3.3% (1.3% real policy rate + 2% inflation). Despite this, South African government bonds don't look unattractive.

Our fair value analysis, using the US 10-year rate of 3.25%, South Africa's expected inflation of 5.5% (which is above our expectations), US expected inflation of 2% and the 10-year average South African credit spread of 2.9% results in a fair value for South African government bonds of 9.7% (3.3% + 5.5% - 2% + 2.9%), which is close to current levels of the South African 10-year bond yield (9.6%), implying there is still some value in South African government bonds. However, with only a cautiously optimistic view on the local yield, how does one protect a bond portfolio?

The natural answer to this would be ILBs, given that in the event of a risk-off sell-off, the rand would also sell off, pushing inflation higher and causing the central bank to readjust rates. However, given the very high duration that these instruments carry, one has to be very careful which part of the ILB curve one invests in. The red/middle line in the graph below shows where the market expects inflation to average over various maturities. Given that we only expect inflation to average 5.3% over the next two to three years, it is only the bonds that have an implied breakeven inflation of close to 5.3% that look interesting. This rules out any ILB with a maturity longer than the year 2025. In addition, ILBs carry a materially longer modified duration (capital at risk) than nominal bonds, e.g. I2046 has a modified duration of 18.7 years, while the R2048 (equivalent nominal bond) has a modified duration of 9.2 years - if both the ILB and nominal curve move 100 basis points (bps) higher, one would lose 9.5% more being invested in the I2046 than the R2048. This means that to be invested in longer end ILBs, the implied breakeven needs to be quite a bit lower than the current 6.5% (closer to 5.5% actually) for it to be an attractive investment. Shorter end ILBs, however, at current levels of a 3% real return and a more realistic break-even inflation do look much more attractive and do warrant positions in a bond portfolio (albeit not materially large).



South African government bonds mostly reflect realistic expectations for the local economy, although they have benefitted from a turn in global sentiment recently. South African bonds compare favourably to their emerging market peers, relative to their own history, and still offer a respectable cushion against further global policy normalisation. At current levels, the yields on offer in the local bond market are fairly valued relative to their underlying fundamentals and warrant a neutral to modestly positive allocation. The relative under-performance of ILBs versus nominal bonds in past quarters has resulted in real yields moving to levels that have not been seen in at least the last eight years. While nominal bonds continue to compare favourably to ILBs, the balance in the front end of the curve has shifted towards ILBs.

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
as at 31 December 2018

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION BOND FUND

Unit trusts should be considered medium- to long-term investments. The value of units may go down as well as up, and therefore Coronation does not make any guarantees with respect to the protection of capital or returns. Past performance is not necessarily an indication of future performance. The fund is mandated to invest up to 10% of its portfolio into foreign securities and may as a result be exposed to macroeconomic, settlement, political, tax, reporting or illiquidity risk factors that may be different to similar investments in the South African markets. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Sector Conduct Authority in terms of the Collective Investment Schemes Control Act. Portfolio managed by Coronation Asset Management (Pty) (FSP 548) Ltd, an authorised financial services provider. The Management Company reserves the right to close the fund to new investors if we deem it necessary to limit further inflows in order for it to be managed in accordance with its mandate. Unit trusts are allowed to engage in scrip lending and borrowing. Standard Chartered has been appointed as trustees for the fund (www.sc.com/za; 011-2176600). Coronation is a full member of the Association for Savings & Investment SA (ASISA).

HOW ARE UNITS PRICED AND AT WHICH PRICE WILL MY TRANSACTION BE EXECUTED?

Unit trusts are traded at ruling prices set on every trading day. Fund valuations take place at approximately 15h00 each business day, except at month end when the valuation is performed at approximately 17h00 (JSE market close) and forward pricing is used. Instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. The payment of withdrawals may be delayed in extraordinary circumstances, when the manager with the consent of the fund trustees deem this to be in the interest of all fund investors. These circumstances may include periods when significant underlying markets suspend trading which will prevent accurate valuation of the instruments held in the fund. When the suspension of trading relates to only certain assets held by the fund, these assets may be side-pocketed. This process allows normal liquidity on the assets that can be valued, but will delay liquidity on the affected portion of the fund. If the fund is faced with excessive withdrawals, the affected withdrawals may be ring-fenced, which is the separation and delayed sale of the assets reflecting the interest of the liquidity seeking investors. It ensures that the sale of a large number of units will not force Coronation to sell the underlying investments in a manner that may have a negative impact on remaining investors of the fund.

HOW WAS THE PERFORMANCE INFORMATION INCLUDED IN THIS FACT SHEET CALCULATED?

Performance is calculated by Coronation as at the last day of the month for a lump sum investment using Class R NAV prices with income distributions reinvested. All underlying price and distribution data is sourced from Morningstar. Performance figures are quoted after the deduction of all costs (including manager fees and trading costs) incurred within the fund. Note that individual investor performance may differ as a result of the actual investment date, the date of reinvestment of distributions and dividend withholding tax, where applicable. Annualised performance figures represent the geometric average return earned by the fund over the given time period. Unannualised performance represents the total return earned by the fund over the given time period, expressed as a percentage.

WHAT IS THE TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS (TC)?

TER is calculated as a percentage of the average net asset value of the portfolio incurred as charges, levies and fees in the management of the portfolio. The TER charged by any underlying fund held as part of a fund's portfolio is included in the fund expenses portion of the TER, but trading and implementation costs incurred in managing the fund are excluded. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. The 1 year TER is for the 12 months to end of September 2018 (updated annually). The 3 year TER is for a rolling 36-month period to the last quarter end (December, March, June and September).

Transaction costs are a necessary cost in managing a fund and impacts the fund's return. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER.

The Total Investment Charge is the sum of the Total Expense Ratio (TER) and transaction costs.

ADVICE AND PLATFORM COSTS

Coronation does not provide financial advice. If you appoint an adviser, advice fees are contracted directly between you and the adviser. For more information please contact the relevant platform (Linked Investment Service Provider or Life Assurance Provider).

WHERE CAN I FIND ADDITIONAL INFORMATION?

Additional information such as daily fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, www.coronation.com

IMPORTANT INFORMATION REGARDING TERMS OF USE

This document is for information purposes only and does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase any particular investment. Opinions expressed in this document may be changed without notice at any time after publication. We therefore disclaim any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance upon the information.